

HOW TAX EVASION AFFECTS US

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Abstract: *Tax evasion affects our country in various ways. It undermines the economy by reducing the government's revenue, which impacts public services such as healthcare, education, and infrastructure development. It also creates an uneven playing field for businesses, as those evading taxes gain an unfair advantage over compliant ones. Additionally, it weakens trust in the tax system and government, leading to a decreased willingness among citizens to pay their taxes honestly. This, in turn, can hinder economic growth and stability. Overall, tax evasion has far-reaching negative consequences for both the government and the citizens of our country.*

Evading taxes, which is the illegal act of avoiding paying taxes that are owed, affects us in various ways. Primarily, it undermines the functioning of government services and infrastructure as it deprives the state of essential revenue. When individuals or businesses evade taxes, it reduces the funds available for public services such as healthcare, education, infrastructure development, and social welfare programs. This can lead to a strain on these services, affecting the quality and accessibility for everyone.

Additionally, tax evasion can create an imbalance in the economy. When some individuals or businesses don't pay their fair share of taxes, it often leads to higher tax burdens on honest taxpayers or cuts in public services to compensate for the lost revenue. This can potentially widen economic disparities and reduce overall economic growth.

Overall, tax evasion affects society by limiting resources available for public goods and services, potentially causing economic imbalances and impacting the well-being of citizens.

Key words: *Tax burden, fiscal policy, tax refunds, tax progressivity, tax breakdown, tax principles.*

JEL Classification Codes: H21, H22, H30, H71.

1. INTRODUCTION

Tax evasion doesn't inherently improve the overall standard of living. While some might argue that tax evasion allows individuals or businesses to retain more income, leading to potential short-term gains, the long-term effects are detrimental to society as a whole.

Tax evasion deprives governments of essential revenue needed for public services such as healthcare, education, infrastructure, and social welfare programs. This reduced funding can hinder a country's ability to invest in its citizens and infrastructure, ultimately impacting the quality of life for its people.



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2. APPLIED METHODS

The study was conducted through the following methods: *analysis* of data and information from books and specialized materials, the comparison between the tax doctrines of the economic schools, *deduction*, drawing conclusions based on the study.

3. RESULTS AND DISCUSSIONS

Here are some techniques and measures applied in Romania to combat tax evasion:

Digitalization and Data Analysis: Romania has invested in digital solutions for tax administration, using advanced data analysis to detect inconsistencies and patterns indicative of tax evasion.

Fiscal Control and Inspections: The National Agency for Fiscal Administration (ANAF) conducts regular inspections and audits to ensure compliance with tax laws and identify potential tax evaders.

Increased Transparency: Measures have been taken to increase transparency, such as the mandatory reporting of certain transactions and the implementation of electronic fiscal invoices to reduce opportunities for evasion.

Legal Reforms: Romania has periodically updated its tax legislation, introducing stricter laws and penalties for tax evasion to deter individuals and businesses from engaging in illegal practices.

International Collaboration: Romania actively participates in international initiatives and agreements for the exchange of tax-related information to prevent tax evasion across borders.

Public Awareness Campaigns: Efforts have been made to raise public awareness about the importance of paying taxes and the consequences of tax evasion through educational campaigns and information dissemination.

Whistleblower Protections: Legal provisions protect whistleblowers who report tax evasion, encouraging individuals with insider information to come forward without fear of retaliation.

Integration of Technology: ANAF has integrated technology and online platforms to simplify tax compliance processes, making it easier for taxpayers to fulfill their obligations while enabling authorities to monitor transactions more efficiently.

These measures represent a multifaceted approach employed by Romania to tackle tax evasion and promote a fairer and more transparent tax system.

Deficiencies in the system to combat tax evasion can include:

Lack of Technology Integration: Outdated or insufficient technological infrastructure may hinder the government's ability to effectively track and monitor financial transactions, leaving loopholes for tax evasion.

Insufficient Resources for Inspections: Limited manpower or resources allocated to tax authorities can result in fewer audits and inspections, allowing some individuals or businesses to evade taxes without being detected.

Complex Tax Laws: Overly complicated tax laws and regulations can create confusion and loopholes that savvy individuals or corporations may exploit to avoid paying their fair share of taxes.

Lack of International Cooperation: Inadequate collaboration between countries in sharing tax-related information can allow individuals and entities to move funds across borders to evade taxes without adequate scrutiny.

Weak Whistleblower Protections: Inadequate legal protections or lack of incentives for whistleblowers might discourage individuals from reporting tax evasion, leading to a reduced flow of crucial insider information.

Limited Public Awareness: Insufficient efforts in educating the public about the importance of tax compliance and the consequences of evasion can contribute to a culture where tax evasion is seen as more acceptable.

Corruption and Bureaucratic Challenges: Instances of corruption within tax authorities or bureaucratic hurdles may impede the enforcement of tax laws and contribute to widespread evasion.

Addressing these deficiencies requires a comprehensive approach involving legal reforms, technological advancements, international cooperation, public awareness campaigns, and an efficient allocation of resources to strengthen the system's ability to combat tax evasion effectively.

There are several ways to improve the tax collection system:

Enhanced Technology Integration: Implementing advanced software and digital solutions can streamline tax filing processes, improve accuracy, and enable real-time monitoring of transactions, reducing errors and potential avenues for evasion.

Simplified Taxation Procedures: Streamlining and simplifying tax laws and procedures can make compliance easier for taxpayers, reducing confusion and inadvertent errors while encouraging voluntary compliance.

Increased Transparency: Promoting transparency in tax processes, such as making tax laws and regulations more accessible to the public, can foster trust and encourage compliance.

Stricter Enforcement and Compliance Measures: Implementing stricter penalties and enforcement actions against tax evaders serves as a deterrent, while simultaneously rewarding compliant taxpayers can incentivize adherence to tax laws.

Investment in Human Resources and Training: Providing adequate training and resources to tax authorities enhances their capacity to efficiently handle tax-related matters, conduct audits, and ensure fair and consistent enforcement.

Proactive Data Analytics: Leveraging data analytics and predictive modeling can help identify potential areas of tax evasion, enabling authorities to take preventive measures.

Public Awareness Campaigns: Educating the public about the importance of taxes, their role in society, and the repercussions of evasion can foster a culture of compliance.

Partnerships and Collaboration: Collaboration between government agencies, private sectors, and international organizations facilitates sharing of information and best practices, strengthening the overall tax collection ecosystem.

Implementing these strategies in tandem can significantly improve tax collection efficiency, promote compliance, and reduce tax evasion.

Cases of significant tax evasion involve individuals or entities who have been found guilty or accused of illegally avoiding taxes. These cases can vary widely across different countries and industries.

Famous cases of tax evasion have involved high-profile individuals, corporations, or public figures, but discussing specific names might require up-to-date and accurate legal information. However, instances of notable tax evasion are often well-documented and widely reported in the media and legal proceedings.

The sectors where the highest tax evasion commonly occurs include:

Professional Services: Independent professionals or firms offering services like consulting, IT, design, and other similar fields might underreport their income to evade taxes.

Retail Trade: Some small businesses in retail might evade taxes by underreporting income, often through cash transactions.

Construction Industry: Tax evasion can be prevalent in construction through underreporting income and incomplete transaction records.

Online Commerce: The e-commerce sector and online businesses may pose risks for tax evasion due to difficulties in tracking transactions and incomes.

Financial Sector: In certain cases, financial and investment sectors can be associated with tax evasion, utilizing complex schemes or utilizing tax havens. These are some sectors where tax evasion tends to be more widespread, but specific methods and circumstances can vary depending on the country and its specific legislation.

To achieve the simplification of tax regulations, several steps can be taken:

Review and Streamline Laws: Conduct a comprehensive review of existing tax laws and regulations to identify complexities and redundancies that can be simplified or removed.

Clarity and Plain Language: Rewrite or restructure tax laws using clear and straightforward language, making them easily understandable for taxpayers without specialized legal knowledge.

Consolidation of Rules: Combine multiple regulations or rules that address similar issues into a single, coherent framework to reduce confusion and simplify compliance.

Reduced Compliance Burden: Aim to lessen the administrative burden on taxpayers by minimizing paperwork, standardizing forms, and simplifying reporting requirements.

Guidance and Assistance: Provide accessible guidance and resources to assist taxpayers in understanding their obligations, possibly through online portals, FAQs, or customer support.

Stakeholder Consultation: Involve stakeholders, including businesses, tax professionals, and the public, in the process of simplification to ensure that changes meet practical needs.

Gradual Implementation: Introduce simplified tax regulations gradually, allowing time for taxpayers and authorities to adapt and providing support during the transition period.

Regular Review and Updates: Commit to periodic reviews and updates of tax regulations to ensure they remain clear, effective, and aligned with evolving economic conditions and taxpayer needs.

Implementing these steps can contribute to making tax regulations simpler, more transparent, and easier to comply with for both taxpayers and tax authorities.

In the future, the state might combat tax evasion through:

Advanced Technology Integration: Implementing cutting-edge technologies like artificial intelligence and blockchain to monitor transactions, detect anomalies, and create more transparent and secure tax systems.

Data Analytics and Predictive Modeling: Utilizing sophisticated data analytics to predict potential cases of tax evasion, enabling proactive measures to be taken before evasion occurs.

International Collaboration and Information Sharing: Strengthening partnerships between countries for the exchange of financial information to track cross-border transactions and prevent tax evasion.

Streamlined and Clear Regulations: Continuously simplifying tax laws and regulations, ensuring they are straightforward, accessible, and minimize loopholes that facilitate evasion.

Enhanced Public Awareness and Education: Conducting comprehensive public awareness campaigns to inform citizens about the importance of tax compliance and the consequences of evasion.

Robust Enforcement and Penalties: Implementing stricter penalties and enhancing enforcement mechanisms to deter potential evaders and ensure compliance.

Whistleblower Incentives and Protections: Establishing effective whistleblower programs with incentives and protections to encourage individuals to report tax evasion without fear of retaliation.

Continuous Innovation and Adaptation: Embracing innovation and regularly updating strategies and technologies to stay ahead of evolving evasion techniques and changing economic landscapes.

Implementing a combination of these approaches, while continually adapting to new challenges and technological advancements, could significantly bolster the state's efforts to combat tax evasion in the future.

Reducing tax evasion can contribute to our country's wealth and prosperity in several ways:

Increased Revenue: By ensuring that everyone pays their fair share of taxes, the government can collect more revenue, which can be allocated to improve public services, infrastructure, and social welfare programs.

Fairer Economic Environment: Combatting tax evasion creates a level playing field for businesses, fostering fair competition and encouraging economic growth by preventing unfair advantages gained through illegal practices.

Investment and Confidence: A decrease in tax evasion can boost investor confidence, attracting more foreign investments and stimulating domestic entrepreneurship, which further contributes to economic development.

Stable Economy: A more robust tax system with reduced evasion helps in stabilizing the economy by ensuring consistent revenue streams for the government, enabling better fiscal planning and management.

Reduced Inequality: Enhanced tax collection can lead to more equitable distribution of resources, reducing income inequality and improving social cohesion within the country.

4. CONCLUSIONS

In summary, curbing tax evasion is pivotal not only for ethical and legal reasons but also for fostering a wealthier and more prosperous nation, ensuring a sustainable and equitable future for all citizens.

Moreover, tax evasion often fosters an unequal distribution of wealth, exacerbating societal disparities and impeding economic growth. It can lead to a less equitable society, widening the gap between the wealthy and the less fortunate.

In essence, while tax evasion might provide temporary financial advantages for individuals or businesses, its overall impact is negative, affecting the broader population and hindering societal progress and development.

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